



- ☐ Board Members
  - ☐ Business Taxes Committee
  - ☐ Customer Services and Administrative Efficiency Committee
  - ☐ Legislative Committee
  - ☒ Property Tax Committee
  - ☐ Other [Insert Name]
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## **Topic:**

Implementation of Assembly Bill 81 (Migden) and Amended Property Tax Rule 905, *Assessment of Electric Generation Facilities*

## **Background:**

Assembly Bill 81 (AB 81) was enacted and Property Tax Rule 905 was amended during 2002. This legislation and administrative rule place assessment jurisdiction for electric generation facilities with a generating capacity of 50 megawatts or more (with certain specified exclusions) with the Board of Equalization (Board), effective for lien date January 1, 2003.

The effect of these actions is that the Board will value and assess 42 electric generation facilities beginning with lien date 2003. Twenty of these facilities were divested by electric public utilities and have been assessed by county assessors since the original version of Property Tax Rule 905 was adopted, effective for lien date January 1, 1999. Twenty-two additional facilities have been constructed, or are in the process of being constructed, since that time and will fall under the Board's assessment jurisdiction as of January 1, 2003.

In addition, AB 81 mandates that the Board must allocate the assessed value of each of these electric generation facilities to the county and to the specific Tax Rate Area in which the facility is physically located.

## **Current Status:**

### **ACTIONS TO DATE**

- In July 2002, an Electric Generation Industry Group team was formed. This team consists of five Valuation Division Appraisers. The objective of the team is to ensure timely implementation of the provisions of AB 81 and amended Property Tax Rule 905.
- The team has held numerous meetings with county assessors' office staffs, electric generation company assessees, and regulatory agencies (California Energy Commission, California Public Utilities Commission, California Independent System Operator, Department of Water Resources, etc.) concerning individual plant specifics, appraisal methods and models, and related issues bearing on the valuation of electric generation facilities.

- The team has conducted physical inspections of a majority of the facilities and is in the process of inspecting the remaining facilities. The inspections include discussions with plant managers as well as tax representatives to obtain plant specific data, including operational and location attributes, problems, etc.
- The team has developed property statements and property statement reporting instructions for this industry group. Property statements and instructions were mailed to applicable assessees on December 31, 2002. Property statements were due to be filed by assessees on or before March 1, 2003 or by a later date granted pursuant to a valid extension request.
- The Valuation Division has obtained legal opinions from the Board's Department staff relating to various questions regarding assessment jurisdiction. The Legal Department and the Valuation Division have worked with county assessors and assessees to answer questions concerning assessment jurisdiction related to numerous specific electric generation facilities.
- The Valuation Division coordinated with the Assessment Policy and Standards Division of the Property and Special Taxes Department to issue Letter To Assessors (LTA) No. 2003/009 regarding the assessment jurisdiction of electric generation facilities. This LTA includes a list of electric generation facilities to be assessed by the Board for lien date 2003.
- Utilizing data and information obtained from discussions with county assessors, regulatory bodies, electric generation assessees, and Property and Special Taxes Department staff, and from valuation models and principles included in the *Unitary Valuation Methods* book, the team has developed valuation models to be employed in the valuation of electric generation facilities for lien date 2003.
- The team continues to meet with all applicable parties to obtain information concerning valuation issues, data, and opinions regarding valuation techniques to be employed in the appraisal of electric generation facilities for lien date 2003.
- The Valuation Division has developed a system to ensure that the assessed value of each electric generation facility in this industry group is allocated to the county and to the specific Tax Rate Area in which the facility is located, in accordance with the mandates of AB 81.

#### **TIMETABLE OF FUTURE ACTIONS**

March 21, thru May 13, 2003	Staff will complete unitary valuations for all state assessees, including Electric Generation Facility Industry Group assessees.
May 14, 2003	Value indicators and staff recommendations for all state assessees will be furnished to the Board.
May 28, 2003	The Board adopts lien date 2003 unitary assessed values for all state assessees, including Electric Generation Facility Industry Group assessees.
May 29, 2003	Staff mails the Notice of Unitary Value and details concerning the right to file a Petition for Unitary Property Reassessment to all state assessees, including

## Electric Generation Facility Industry Group assessees.

May 29, thru June 12, 2003	Staff allocates the total Board-adopted unitary value for each state assessee to the counties in which the assessee has property. The unitary Board-adopted value for the Electric Generation Facility Industry Group assessees will be allocated to the specific Tax Rate Area in which the facility is located, in accordance with the mandate of AB 81.
June 13, 2003	Staff mails to each state assessee an <i>Allocations of the Assessed Value of State-Assessed Property</i> report and details concerning the right to Petition for Correction of Allocated Unitary Value.
June 30, 2003	Staff mails the Preliminary Board Roll (Tax Rate Area Totals) to County Auditors.
July 9, 2003	The Board adopts the final Board Roll of State-Assessed Property (Allocated Unitary Value and Nonunitary Value for each state assessee, by County, and by Tax Rate Area).
July 10, 2003	Staff mails the Notice of Nonunitary Values and details concerning the right to Petition for Nonunitary Property Reassessment to all applicable state assessees.
July 10, 2003	Staff mails the Board Roll of State-Assessed Property to each County Auditor.
July 31, 2003	Staff mails the Board Roll of State-Assessed Property and Allocations of the Assessed Value of State-Assessed Property report to each County Assessor.
September thru December 2003	The Board decides all state assessee Petitions for Unitary or Nonunitary Value Reassessment and all Petitions for Unitary Value Reallocation.

### **ADDITIONAL INFORMATION**

Attachment I contains factors and information pertaining to the electric generation facilities to be assessed by the Board beginning January 1, 2003, and valuation approaches applicable to specific groupings of facilities.

Attachment II contains a calendar and details of the state assessee appeals process.

### **Conclusion:**

The implementation of AB 81 and revised Property Tax Rule 905 is proceeding on schedule. Staff will provide the Board with appropriate data, value indicators, etc., to assure the timely assessment of the property in the new Electric Generation Facility Industry Group of state assessees for lien date 2003.

Prepared by: Property and Special Taxes Department, Valuation Division  
Legal Department, Property Taxes Section

Current as of: March 7, 2003

## **ELECTRIC GENERATION FACILITIES - FACTORS AND INFORMATION**

This attachment contains factors and information pertaining to the electric generation facilities to be assessed by the State Board of Equalization for lien date 2003.

### **TWO PRIMARY GROUPS OF ELECTRIC GENERATION FACILITIES**

*Divested Facilities* - Twenty older facilities were sold by utilities to five non-CPUC regulated companies. These facilities were built during the 1950s and 1960s. They are inefficient and, in general, have operating expenses that are 30% to 50% higher than new facilities.

*New Facilities* – Twenty-two new facilities that are under the Board's assessment jurisdiction were granted permits by the California Energy Commission subsequent to the September 23, 1996 enactment of Assembly Bill 1890.

- 9 facilities are completed and are on-line
- 13 facilities are under construction

According to the California Energy Commission, the 22 new facilities will add 8,808 megawatts of generating capacity to the California electricity market and create an oversupply of electricity for the near future. The total generating capacity in California prior to the addition of these facilities was approximately 52,000 megawatts.

### **WHOLESALE ELECTRICITY PRICE COMPARISON**

During the energy crisis of 2000 and 2001, wholesale electricity prices averaged \$124 per megawatt, with wholesale prices reaching a high of \$1,021 per megawatt.

The average wholesale price for electricity on January 1, 2003 was \$30 per megawatt and is projected by the California Energy Commission to average approximately \$31 per megawatt until 2005.

The price per megawatt for wholesale electricity has a direct bearing on what a potential purchaser would pay for an electric generation facility and, therefore, the market value of that property.

### **VALUATION APPROACHES APPLICABLE TO ELECTRIC GENERATION FACILITIES**

*Replacement Cost New Less Depreciation* - The cost to construct a new, state-of-the-art electric generation facility with the same generating capacity as the facility under appraisal, adjusted for physical, functional, and economic obsolescence. This value indicator is a preferred approach when the property is new, or nearly new, and has suffered little obsolescence, when data supporting the income approach is unreliable, and/or when there is an inadequate number of sales of comparable properties.

*Capitalized Earning Ability (Income Approach)* - Discounted Cash Flow Model - Annual income for each of the next 10 to 20 years (the estimated remaining life of a specific facility) is projected and discounted to present value (fair market value). This value indicator is a preferred approach when the property is purchased for the income it will generate, when there is an inadequate number of sales of comparable properties, and/or the property has suffered significant obsolescence that is difficult to quantify.

#### *Divested Facilities*

The Replacement Cost New Less Depreciation value indicator will be calculated for each facility in this group of 20 electric generation facilities. A major weakness of this value indicator for divested facilities is the difficulty of quantifying the significant amount of functional and economic obsolescence inherent in each of these older facilities.

The Discounted Cash Flow Income Approach value indicator will be calculated for each facility in this group of 20 electric generation facilities. This value indicator measures the estimated future income producing capability for each of these facilities and should reflect the obsolescence that exists in each of these properties. A weakness of this value indicator for electric generation facilities under the current environment is the highly subjective nature of future income estimates. One example would be projecting the future wholesale price of electricity.

#### *New Facilities*

The Replacement Cost New Less Depreciation value indicator will be calculated for each facility in this group of 22 facilities. This value indicator should be reliable for this group because these facilities are new, or nearly new, and have suffered little obsolescence.

Construction work in progress (cost expended on the project through January 1, 2003) should approximate the market value for the 13 facilities under construction as of the 2003 lien date.

An adjustment to the Replacement Cost New Less Depreciation value indicator or to construction work in progress may be warranted for this group of assesseees to reflect economic obsolescence due to the current over-supply of electricity generating capacity.

The Discounted Cash Flow Income Approach value indicator will also be calculated for each of the new facilities.

## STATE ASSESSEE APPEAL PROCESS

On or before July 21, 2003	<p>A state assessee may file (i) a valid Petition for Unitary Property Reassessment, contesting the unitary value adopted by the Board on May 28, 2003, and (ii) a valid Petition for Correction of Allocated Unitary Value with the Board Proceedings Division, contesting the unitary value allocation made by staff in June 2003.</p> <p>The Board may, upon written request of an assessee, extend the time for filing a Petition for Unitary Property Reassessment for up to 15 days beyond this deadline (i.e., to August 5, 2003).</p>
On or before Sept. 22, 2003	<p>A state assessee may file a valid Petition for Nonunitary Property Reassessment with the Board Proceedings Division, contesting the nonunitary value adopted by the Board on July 9, 2003.</p> <p>The Board may, upon written request of an assessee, extend the time for filing a Petition for Nonunitary Property Reassessment for up to 15 days beyond this deadline (i.e., to October 7, 2003).</p>
September through December 2003	<p>The Board holds hearings for petitions filed relating to 2003 unitary assessments, the allocation of 2003 unitary assessments, and 2003 nonunitary assessments. (The Board throughout the year holds hearings and renders decisions related to the appeal by state assessees of escaped assessments.)</p> <p>When filing a petition, an assessee may request either an oral hearing before the Board or request that the Board decide the matter based upon the facts stated in the written petition and staff's recommendation. A minimum 60-day notice must be given by the Board to assessees before a hearing on a petition filed.</p> <p><i>Example:</i> The owner of an electric generation facility timely files a Petition for Unitary Property Reassessment with the Board Proceedings Division, requesting an oral hearing before the Board on the matter. The Board Proceedings Division schedules an oral hearing for the October 15, 2003, Board meeting. The following timetable would apply to this hearing:</p> <ul style="list-style-type: none"> <li>• Board staff (the Legal Department, Property Taxes Section staff) prepares and files a Staff Analysis and Recommendation with the Board Proceedings Division, in response to the petition filed, no later than 30 days prior to the scheduled hearing date.</li> <li>• 20 days prior to the scheduled hearing date, the petition filed by the assessee and the Staff Analysis and Recommendation filed by Board staff are distributed to Board Members by the Board Proceedings Division.</li> <li>• No later than 15 days prior to the scheduled hearing date, the assessee may file a written response to the Staff Analysis and Recommendation, which is also distributed to Board Members.</li> </ul>
Dec. 31, 2003	<p>Final date for the Board to render a decision on all petitions filed relating to 2003 assessments. (The final Sacramento Board meeting of the year is currently scheduled for December 11, 2003.)</p>